

DE News

October 12, 2001 - Iowa Department of Education - Ted Stilwill, Director

Across-the-Board Budget Reductions Planned

You have probably already heard news reports of Governor Vilsack's intent to order across-the-board cuts in state general fund appropriations. With this DE News I want to offer you as much information as we have to date.

The Revenue Estimating Conference (REC) at its quarterly meeting yesterday announced that the state's revenue growth is expected to be 1.9% for FY02 rather than the July estimate of 4.9%. That amounts to a \$157.5 million decline in estimated revenues for the current budget year. The REC reviewed that revenue from sales taxes, personal income taxes, corporate income taxes, and other sources had not met projections by many of millions of dollars.

The Governor is legally required to make spending adjustments to respond to such a shortfall so he and Lt. Governor Pederson consulted with legislative leaders on potential solutions. Since there seemed to be little legislative support for selective cuts, the Governor announced at 4:00 p.m. his intent to order a 4.3% across-the-board budget cut to save approximately \$200 million. This across-the-board cut applies to all state general fund appropriations for public and nonpublic K-12 schools and community colleges. He also announced that he would call the legislature back for a special session within the next 30 days to try to restore funds for key priorities including public safety and K-12 education. From the Governor's comments at the news conference, there may be some support for restoring reductions, at least in public safety.

How Payments are Affected

While the across-the-board cut is not effective immediately, we expect that action will come within a short period of time, certainly within the month. Therefore, the Department will:

- Proceed with the major monthly payments to school districts and community colleges early next week, since the modification of those payments on such short notice might be unnecessarily disruptive.
- Slightly delay the one-time payments on the Class Size/Early Intervention Block Grant and the School Improvement Technology appropriations in order to accommodate the reductions. This slight delay will save the cost and time involved at both the local and state level in returning some part of these one-time payments.
- Phase I and Phase III Educational Excellence payments, which also would typically be paid on October 15, will not be made until final editing of the information submitted on teacher counts is completed. These payments are not being delayed due to the across-the-board state aid reductions. However, the across-the-board cuts will reduce the Ed Excellence funding, with the reduction made in Phase III.

Many of you have asked about funding for the teacher quality/teacher compensation program. The schedule of payments depends upon the sale of the bonds associated

with the Tobacco Settlement Funds. It is anticipated that this will occur at the end of this month and that funds will be made available soon after the bond sale. The teacher compensation payments are not subject to the 4.3% reduction because they are not being made from the State's general fund and the Governor's authority for these reductions is limited to general fund appropriations.

Planning and Implementing Reductions

I understand that the timing and magnitude of this reduction will be a very difficult challenge for all of you. It only slightly lessens the challenge already being faced by community college presidents who already had a substantial reduction at the beginning of the fiscal year. All of us might be tempted to feel better if we could assign blame for this downturn, but it is very clear that we are simply in the midst of a negative economic shift that is impacting many, many states. While some states are using reserve funds or increasing taxes, these are not alternatives available to us in the short term and it remains to be seen if the will is there in Iowa to pursue them in the long term.

While there is potential for legislative action that may soften this reduction, I would strongly encourage you not to wait for such action to occur. You have little flexibility to respond as it is, and waiting will only reduce that flexibility. While it may still be possible for reductions to be somewhat selective with legislative action, I cannot imagine a scenario where all education budgets are not reduced to some degree.

Although full details and impact of the state aid reductions are not known at this time, the following guidelines might be useful:

- State foundation aid will be reduced by the 4.3%; however the reduction does not change a district's authorized budget, except to the extent that miscellaneous income is reduced. The funds received for technology, school improvement, and Phase III are miscellaneous income.
- The across-the-board cuts in technology and school improvement/class size reductions will be a reduction in spending authority.
- A district may use available cash reserve funds to replace the state foundation reduction.
- A district may decide to reduce expenditures; however the reduction may result in increasing the unspent authority carried into the 2002-03 budget.
- A district may decide to borrow funds, realizing that a levy for cash reserve will be needed to repay the loan.

Plan Now for FY03

Let me offer additional observation, comment, advice... all likely unwelcome. As you are dealing with these reductions for the current fiscal year, it is important to note that the Revenue Estimating Conference estimated the revenue growth for 2002-03 to be 1.9% as well. It should be obvious to all of us at this point that economic forecasting may not be the most reliable of sciences in these times, but budgets at the state and local level will be impacted in FY03 by this estimate. In the management of our own Department of Education budget, for example, we plan to reduce our FY03 budget substantially and we are preparing legislative initiatives for the 2002 legislative session that will reduce some of our responsibilities to come in line with that budget.

These are certainly times that test our leadership and call on all of us to respond decisively in order to ensure the greatest stability for students, staff and their families.

Fortunately, the history of our nation and of the state of Iowa is one of success that is built on a series of responses to just such adversity. Ours is a nation where success does not rest on the authority of rulers and kings, but on the emergence of leadership from every point in the system.

This shared stewardship must also be a shared advocacy for education in Iowa. Iowa's best assets to move out of this economic downturn will be our educational assets. We need a strong early childhood, elementary and secondary system, but we also need the strength of our community colleges and universities. No other state can match the collective strength of these assets that allows us to positively position our citizens and our state in the new economy. To diminish these assets too greatly would be to limit our future unwisely. If we have no priorities, then we have no vision. The strongest obligation of leadership is not to simply manage the present, but to assure the future.

DE News provides timely information about legislative and policy issues, grants and funding, trends in education, and other items of immediate interest to Iowa educators and policymakers. Contact Kathi Slaughter, 515/281-5651; fax 515/281-4122; email kathi.slaughter@ed.state.ia.us.